



# **Presentation to Investors**

**June 2007**



## Forward-Looking Statements

This presentation contains forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements. In certain cases, forward-looking statements can be identified by the use of the words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “forecast,” “estimate,” “objective,” “possible,” “probably,” “likely,” “potential,” or other similar expressions.

Some examples of forward-looking statements include statements regarding TVA’s projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; projected capital expenditures; strategic objectives; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; options for additional nuclear generating capacity; and impacts of pending litigation and various administrative orders which have been or may be issued.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations, and administrative orders, especially those related to the restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; legal and administrative proceedings; the financial and economic environment; availability and performance of TVA’s generation and transmission assets; accidents or incidents at non-TVA facilities which affect the entire industry or the economy in general; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA’s business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.



**Tennessee Valley Authority:**  
***Building on Our Strengths to***  
***Ensure Sustainable Performance***

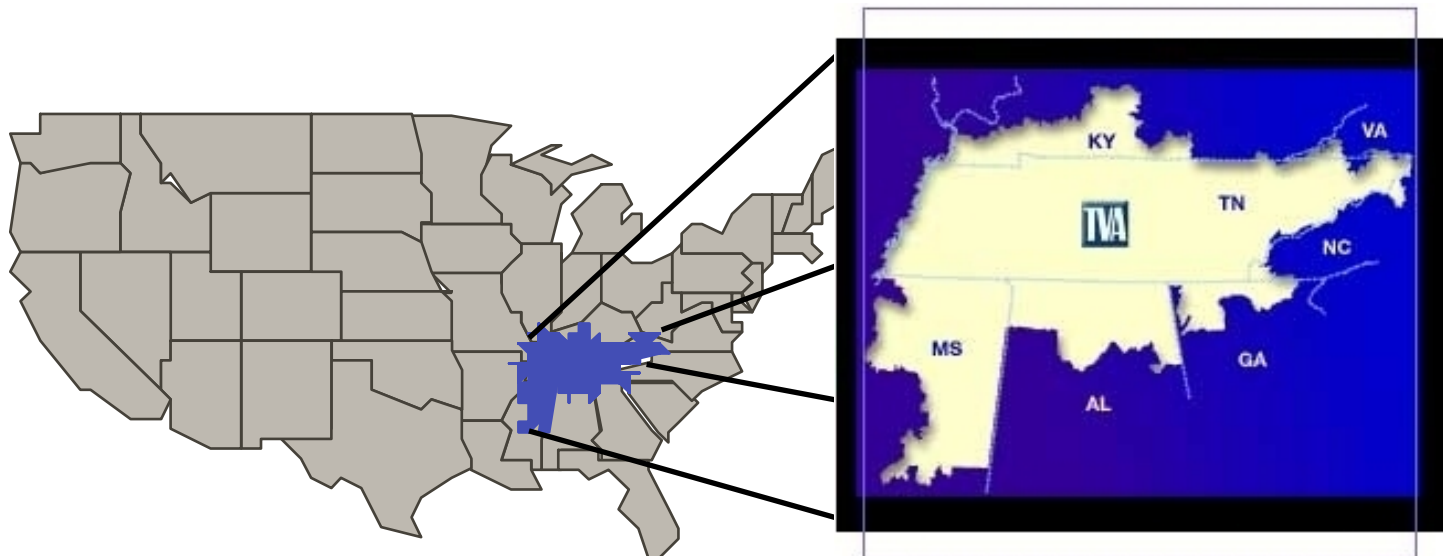
**Tom Kilgore**  
**President & Chief Executive Officer**

# **Business Overview**



## About TVA: *America's Largest Public Power Provider*

<b>Area of Operation</b>	Southeastern United States
<b>Ownership</b>	Wholly-owned U.S. government corporation
<b>2006 Total Revenues</b>	\$9.2 billion
<b>2006 Operating Income</b>	\$1.6 billion
<b>Core Business</b>	Wholesale power generation, integrated river system stewardship, and economic development
<b>Credit Ratings</b>	AAA/Aaa
<b>Funding Sources</b>	Completely self-funded and self-financed





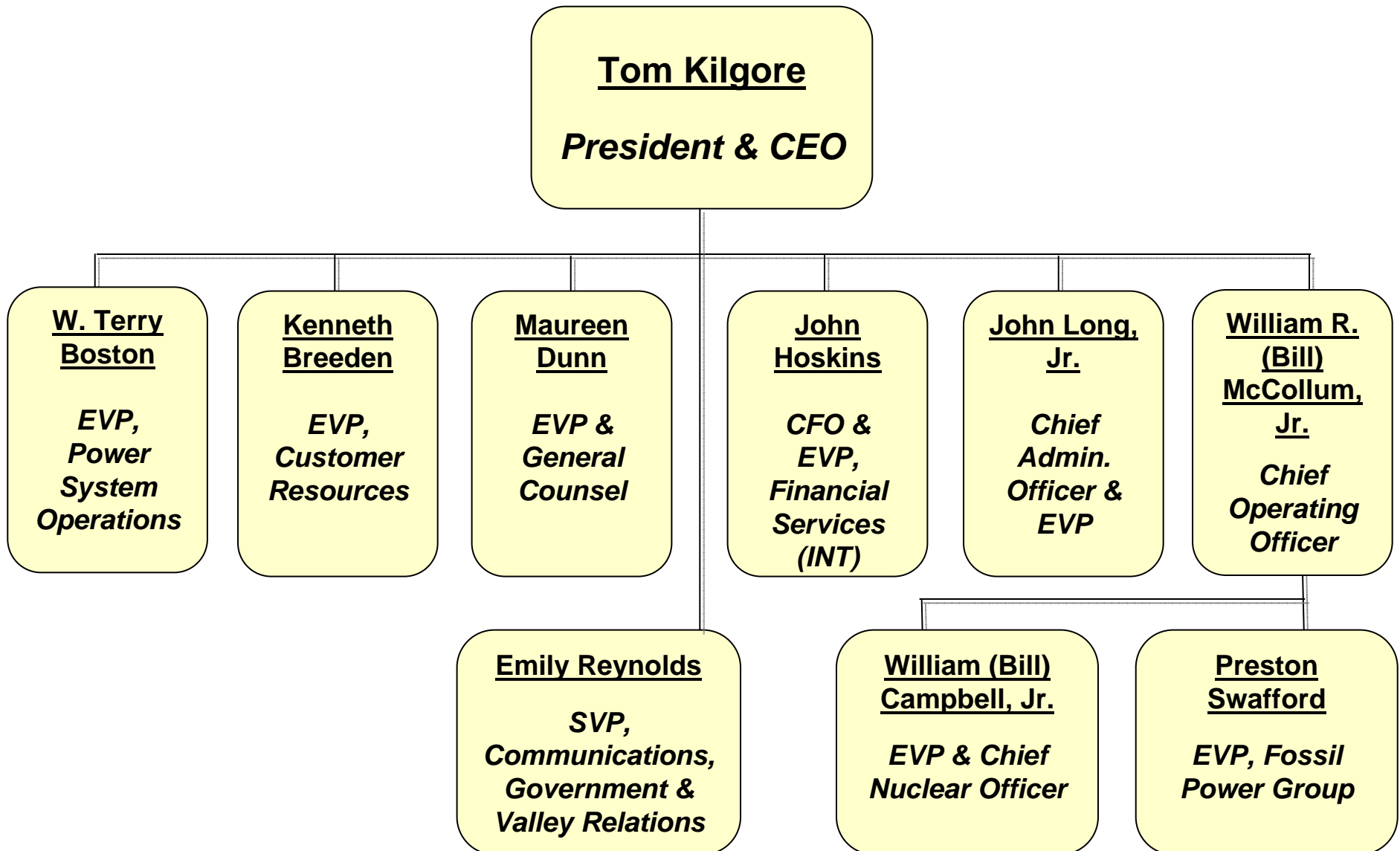
## Corporate Governance and Oversight

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- **Nine-Member Board of Directors** – Appointed by the President
- **Independent Inspector General** – Appointed by the President
- **External Auditor**
- **Financial Reporting** – Securities and Exchange Commission (SEC)
- **Congressional Committees:**
  - *U.S. Senate Environment and Public Works Committee*
  - *U.S. House of Representatives Transportation and Infrastructure Committee*
- **Other Agencies** – OMB, EPA, NRC, U.S. Treasury, etc.



# Executive Leadership Team





## About TVA: *America's Largest Public Power Provider*

### **Power System Resources**

#### **Total System Capacity**

Hydroelectric, Coal-fired, Nuclear, Combustion Turbine, Diesel Generators, Green Power

34,951 MW (net winter dependable)

33,653 MW (net summer dependable)

#### **Total Assets**

\$34.5 billion

#### **2006 Power Generation**

155.5 billion kWh

#### **2006 Power Sales**

176.4 billion kWh

#### **Service Area Size**

80,000 square miles across parts of seven states

#### **Customers**

158 municipal and cooperative power distributors; 62 directly-served industrial customers and federal agencies

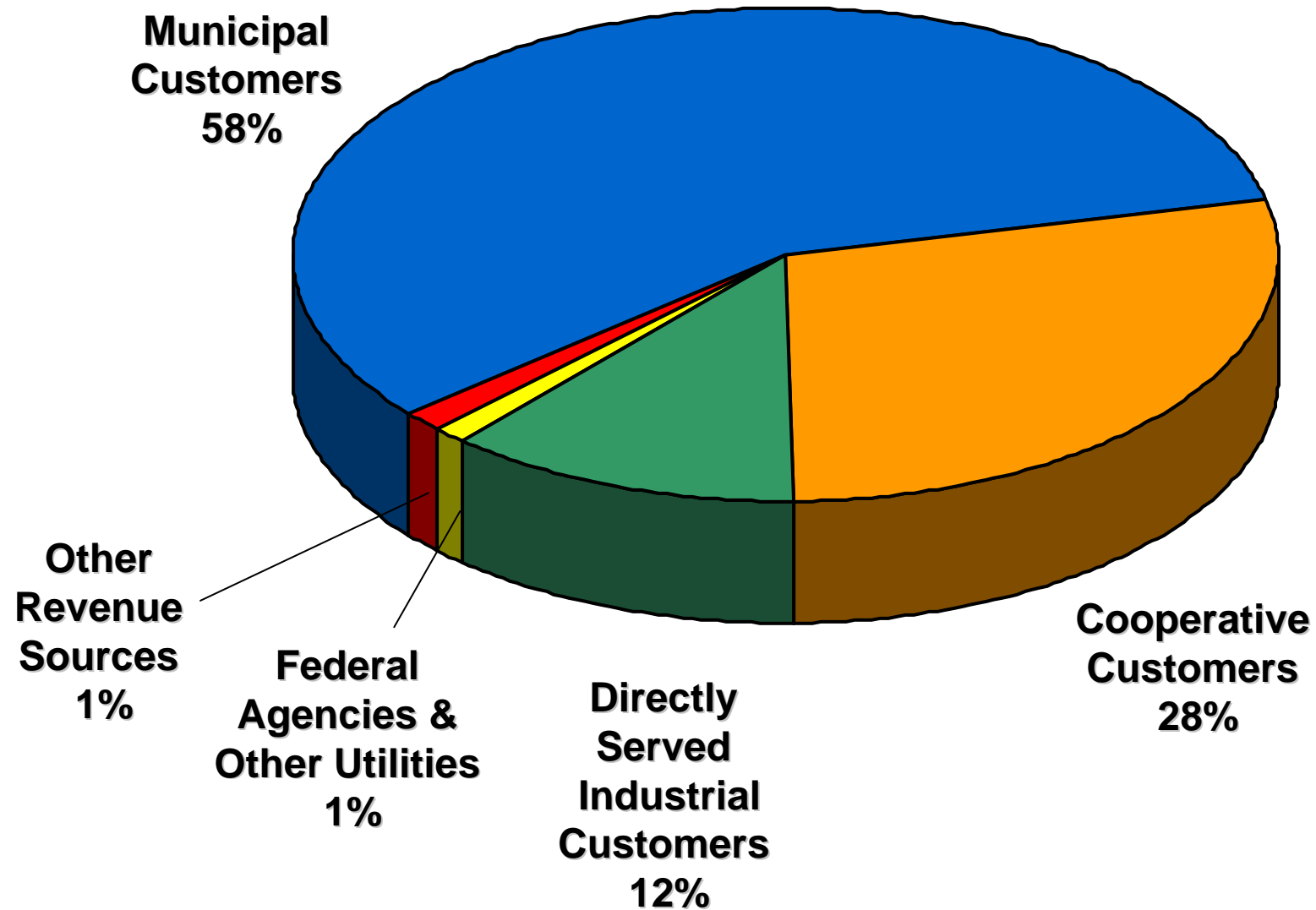


*Note: Capacity figures include leased and contracted sources.*





## Revenue Diversity



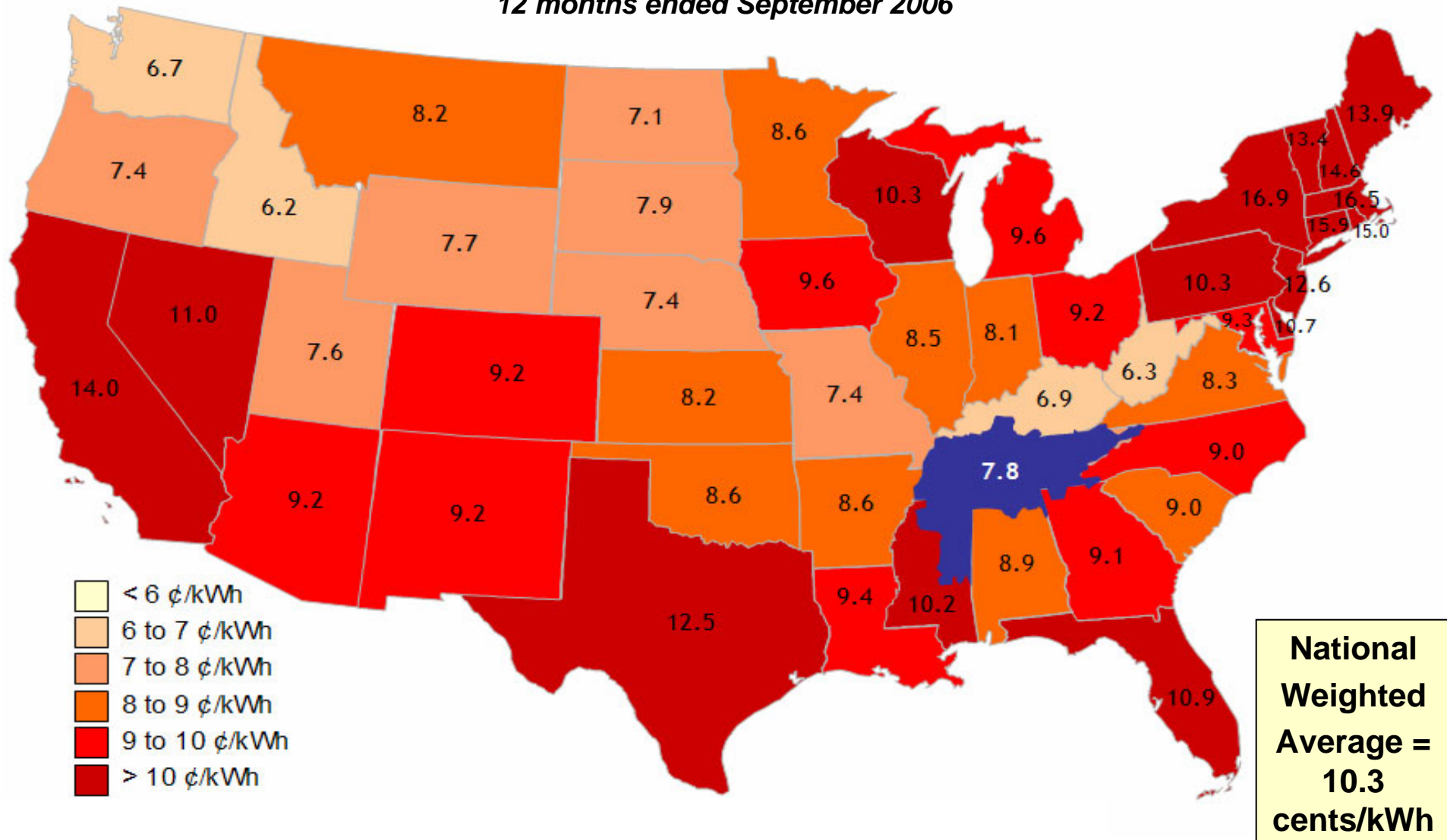


# Competitive Rates

## Average Residential Power Rates by State

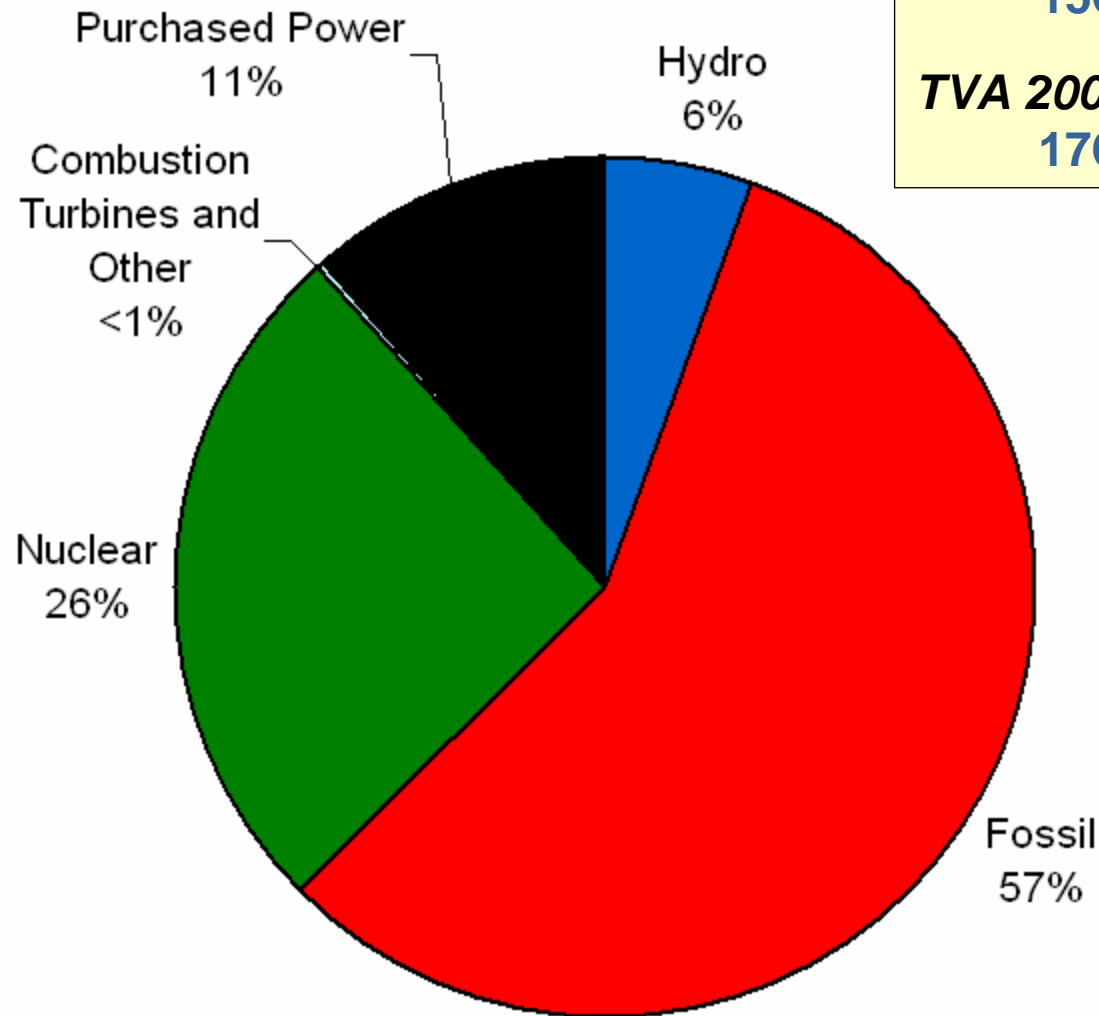
Cents per kWh

12 months ended September 2006





## Power Supply Sources

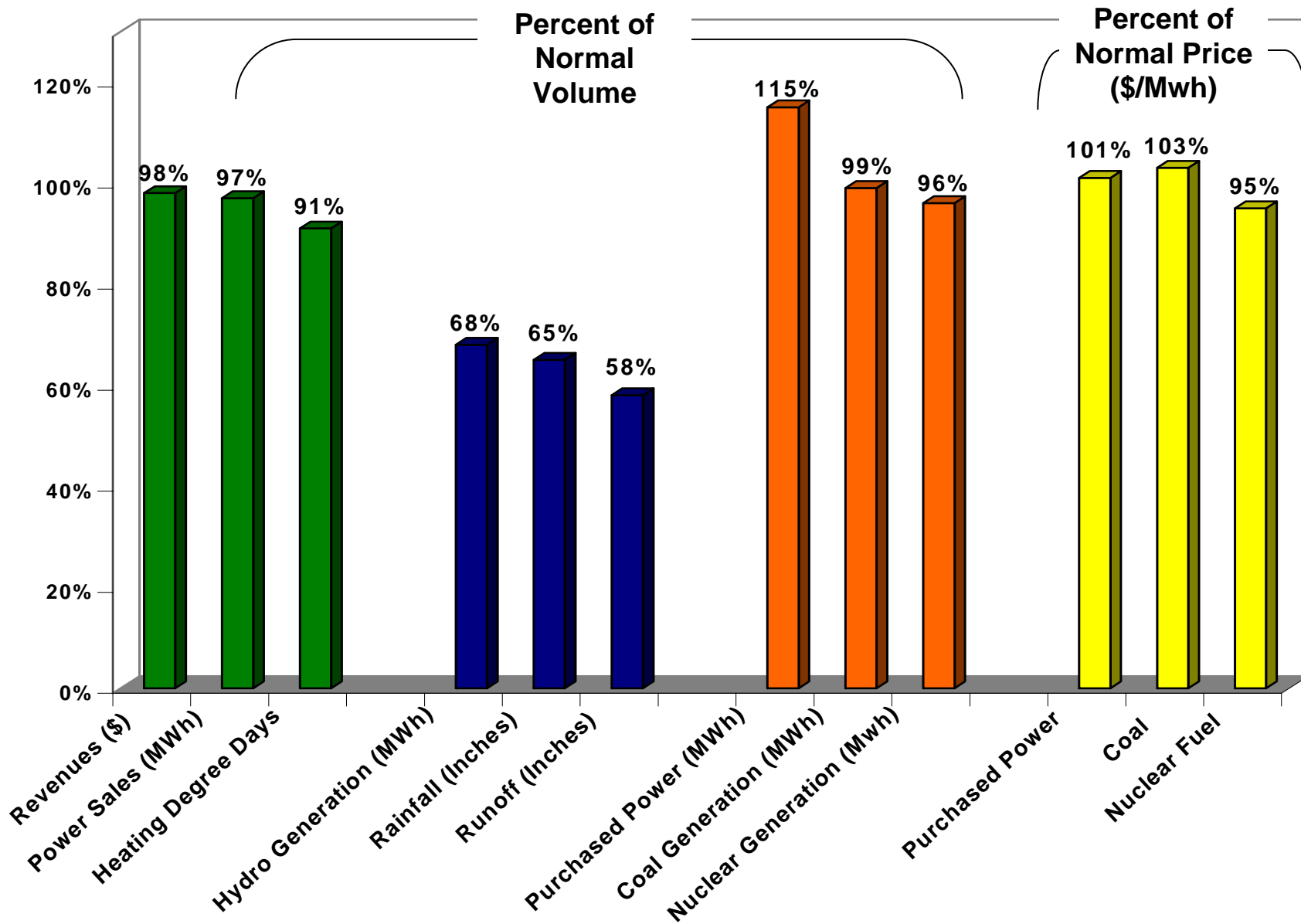


***TVA 2006 Net Generation:***  
**156 billion kWh**

***TVA 2006 Total Sales:***  
**176 billion kWh**



## FYTD 2007 Weather Impacts



Effects as of June 15, 2007



## Recent Major Developments

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- Transition to new governance structure (*March 2006*)
- Implemented fuel cost adjustment mechanism (*October 2006*)
- Transition to SEC reporting (*December 2006*)
- Purchase of power generation facilities to help meet peak demand (*December 2006*):
  - *Marshall Combustion Turbine, 640 MW*
  - *Gleason Combustion Turbine, 525 MW*
- Board approval of the 2007 Strategic Plan (*May 2007*)
- Successful restart of Browns Ferry Unit 1 (*May 2007*)
- Attracted new talent to replace retiring key executives (*2007*)



## Browns Ferry Unit 1 Restart: A Major Milestone

- Adds 1,150 MW of capacity to the TVA system.
- One of the most extensive recovery efforts ever for plant with operating units.
- Completed on schedule and projected cost of about \$1.8 billion.
- Reactor restarted May 22 (*self-sustaining nuclear reaction achieved*).
- Connected to the grid on June 2 - first time in over 22 years.
- Achieved 100% power on June 8<sup>th</sup> - first time ever all six TVA nuclear units at full power simultaneously.
- Dependable, safe source of generation to help TVA meet growing power demand.



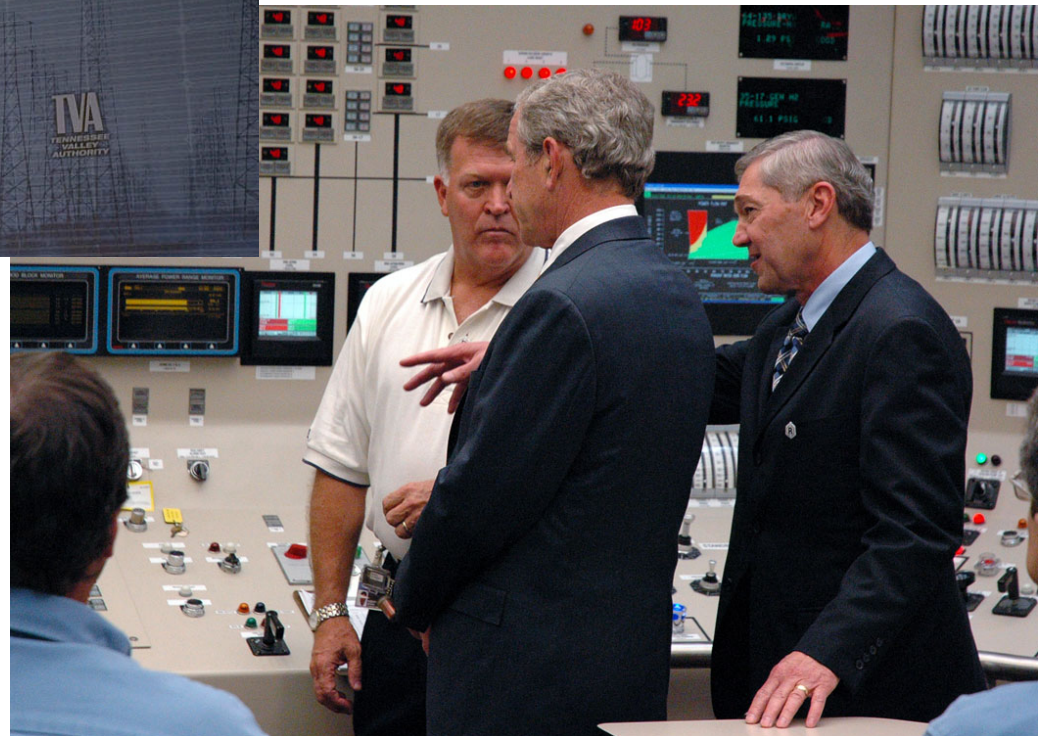
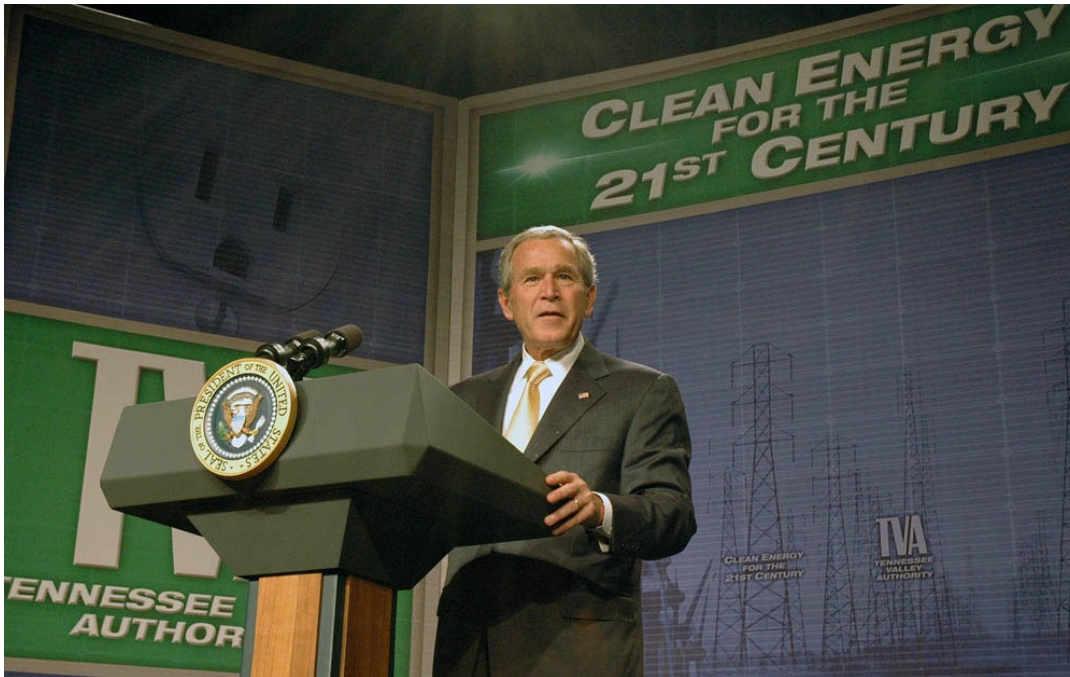
Browns Ferry Nuclear Plant in Alabama







## Browns Ferry Unit 1 Restart: A Major Milestone



# **TVA 2007 Strategic Plan**





## Strategic Focus: 2007 Strategic Plan

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1. **CUSTOMERS** – Maintain power reliability, provide competitive rates, and build trust with TVA's customers.
2. **PEOPLE** – Build pride in TVA's performance and reputation.
3. **FINANCIAL** – Adhere to a set of sound guiding financial principles to improve TVA's fiscal performance.
4. **ASSETS** – Use TVA's assets to meet market demand and deliver public value.
5. **OPERATIONS** – Improve performance to be recognized as an industry leader.



## Strategic Focus: 2007 Strategic Plan

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### **Guiding Financial Principles:**

- Apply sound economic and financing practices to new investments.
- Pay financing obligations before assets are fully depreciated.
- Strengthen TVA's balance sheet by improving the ratio of financing obligations to total assets.
- Improve TVA's cash return on total assets in order to service debt, preserve existing assets, reinvest in new assets, and improve environmental performance.
- Achieve top-quartile performance in non-fuel operation and maintenance (O&M) expenses and hold increases to less than unit sales growth (kWh).



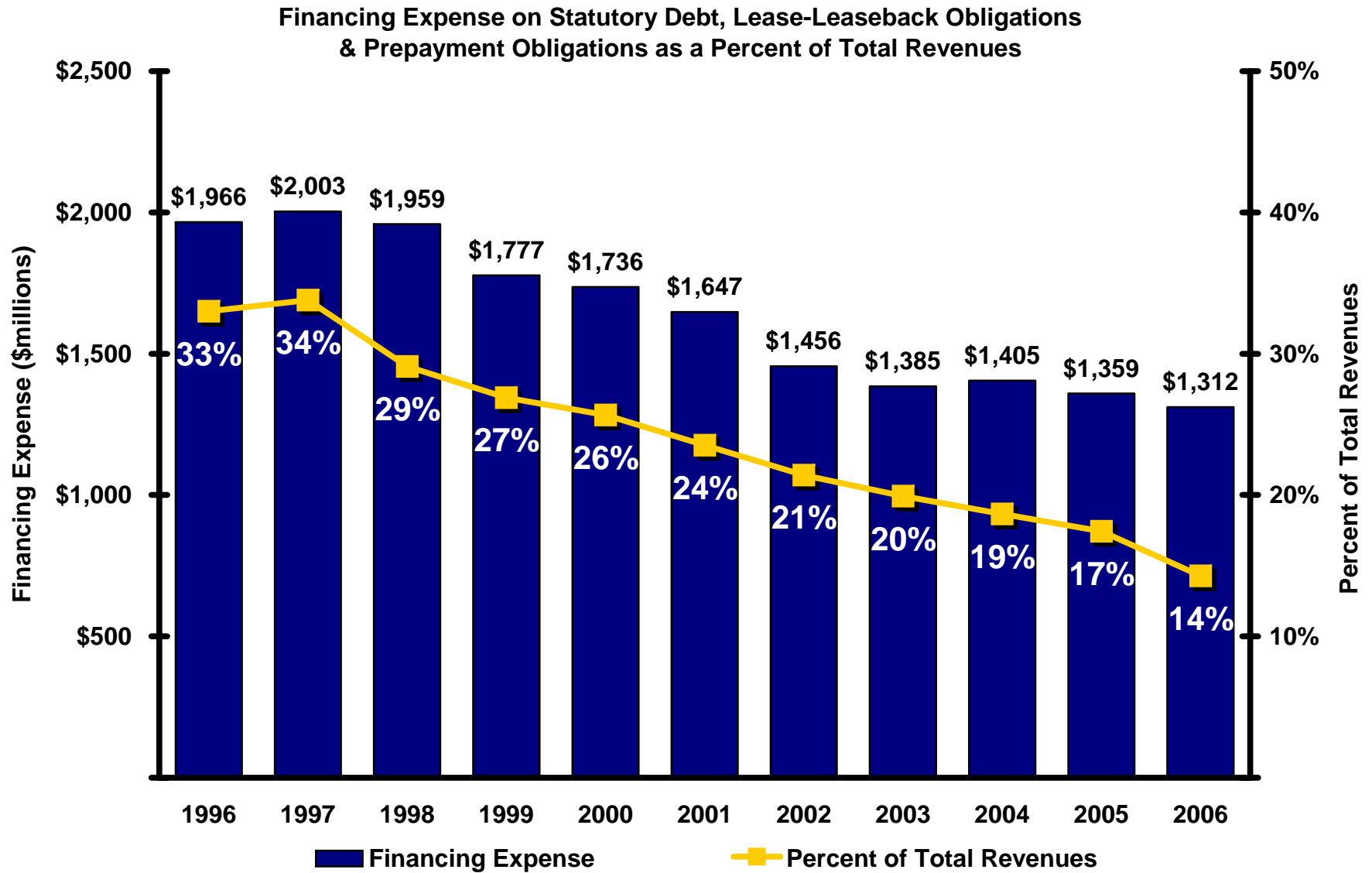
## Velocity of Key Variables

	2002	2003	2004	2005	2006	Change	Trend
Total Power Sales (kWh billions)	159	162	166	171	176	11%	↑
Non-Fuel O&M (¢/kWh)	1.17	1.26	1.40	1.38	1.34	15%	↑
Fuel & Purchased Power (¢/kWh)	1.18	1.21	1.25	1.52	1.89	60%	↑
Construction Expenditures (¢/kWh)	0.78	1.05	0.94	0.78	0.79	2%	→
Interest Expense (¢/kWh)	0.93	0.86	0.84	0.79	0.77	-17%	↓
Tax Equivalents (¢/kWh)	0.21	0.20	0.20	0.21	0.21	N/A	→

***As called for in its new Strategic Plan, TVA's focus will be on maintaining sustainable performance. TVA intends to achieve top-quartile performance in non-fuel O&M expenses and limit the growth of these expenses to less than the growth in sales.***



## Interest as a Percent of Revenues

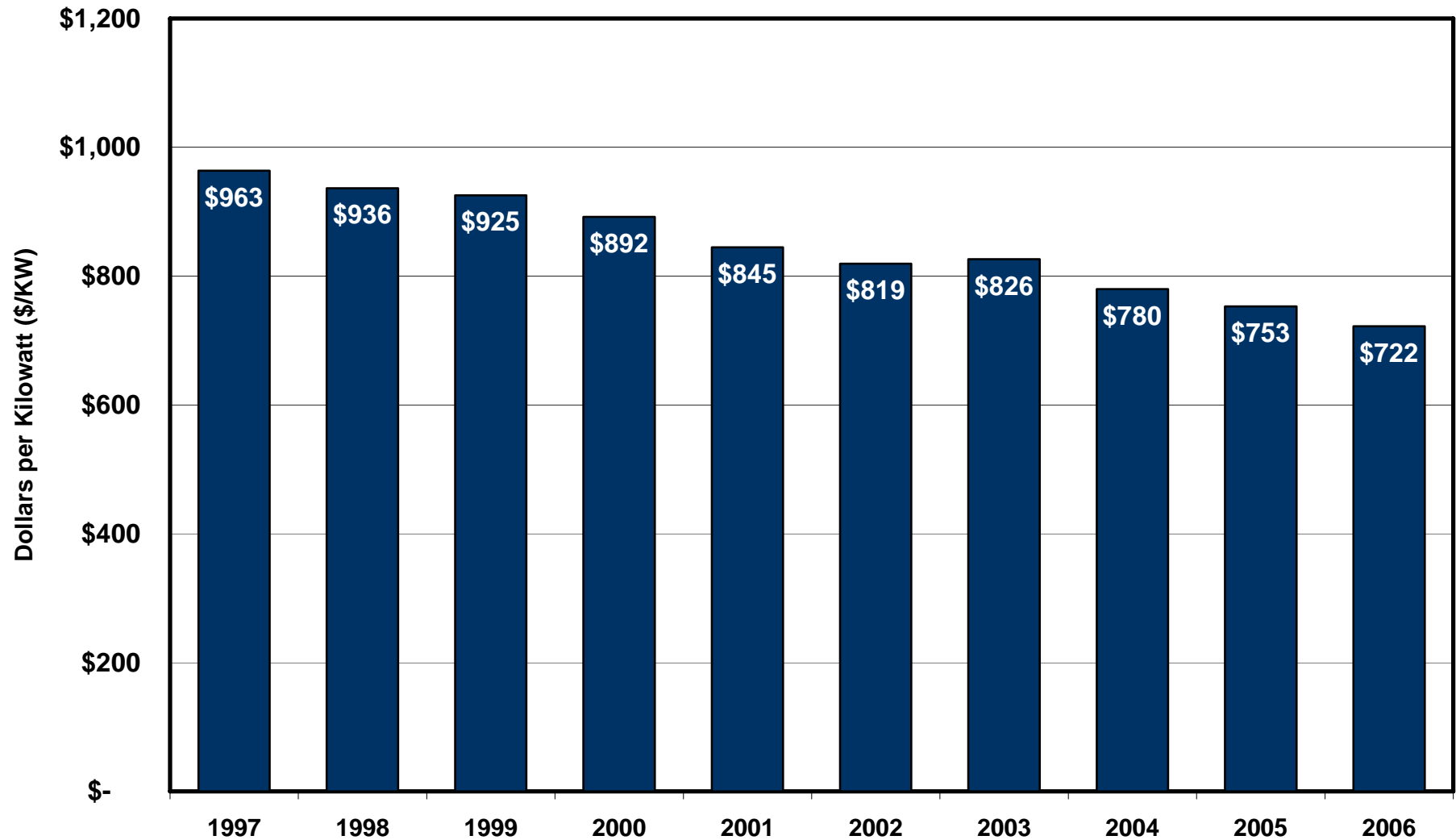


Financing expense includes net interest expense on bonds and notes plus financing expense from customer prepayment obligations and lease/leaseback arrangements. Net interest expense for fiscal years 2004-2006 reflects an accounting change implemented in 2006 which has not been applied retroactively to years prior to 2004.



# Debt Per Unit of Power System Capacity

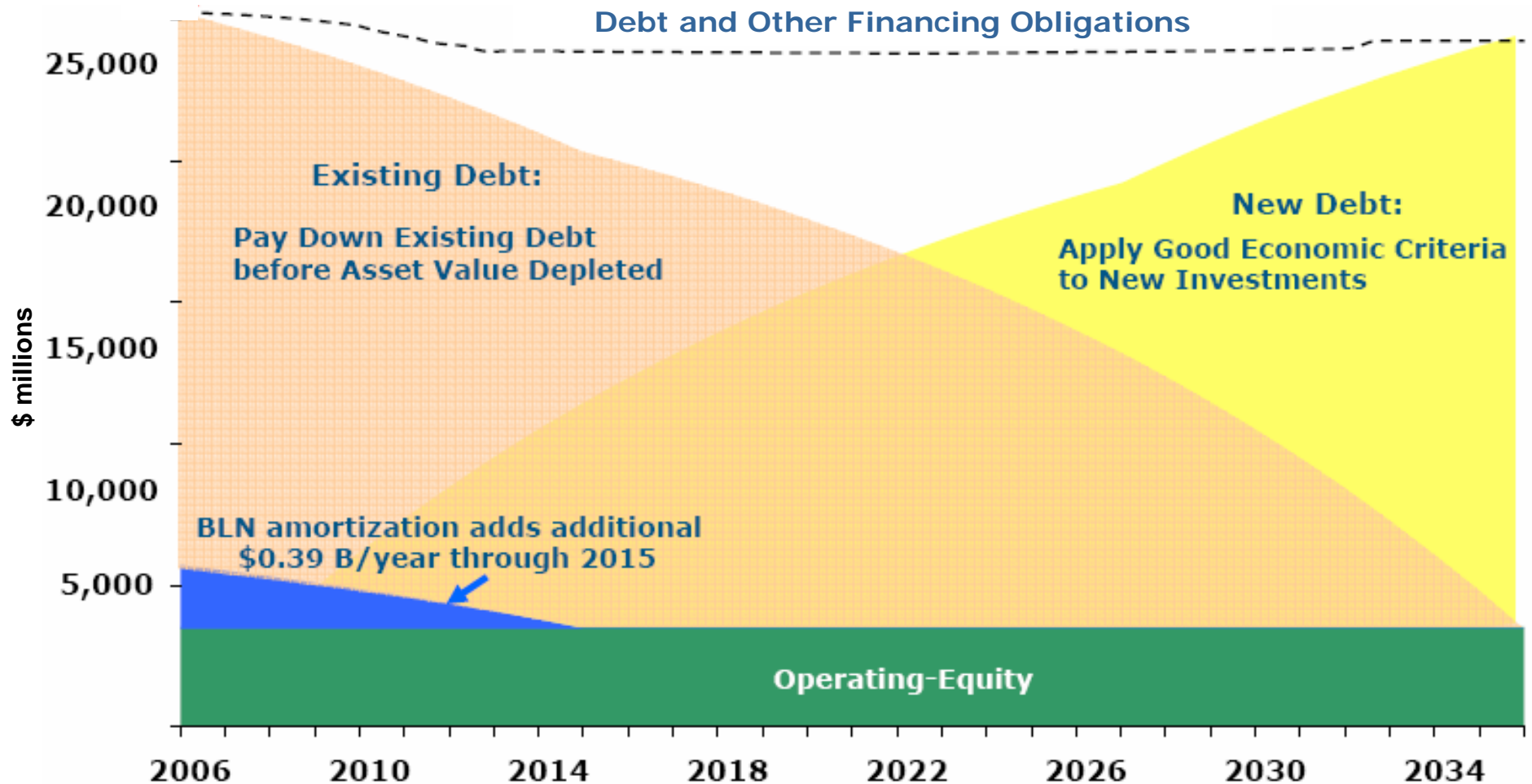
Debt and Other Financing Obligations per Kilowatt (kW)  
of Winter Dependable System Capacity



Debt includes TVA bonds and notes. Other financing obligations include lease/leaseback and customer energy prepayment obligations.



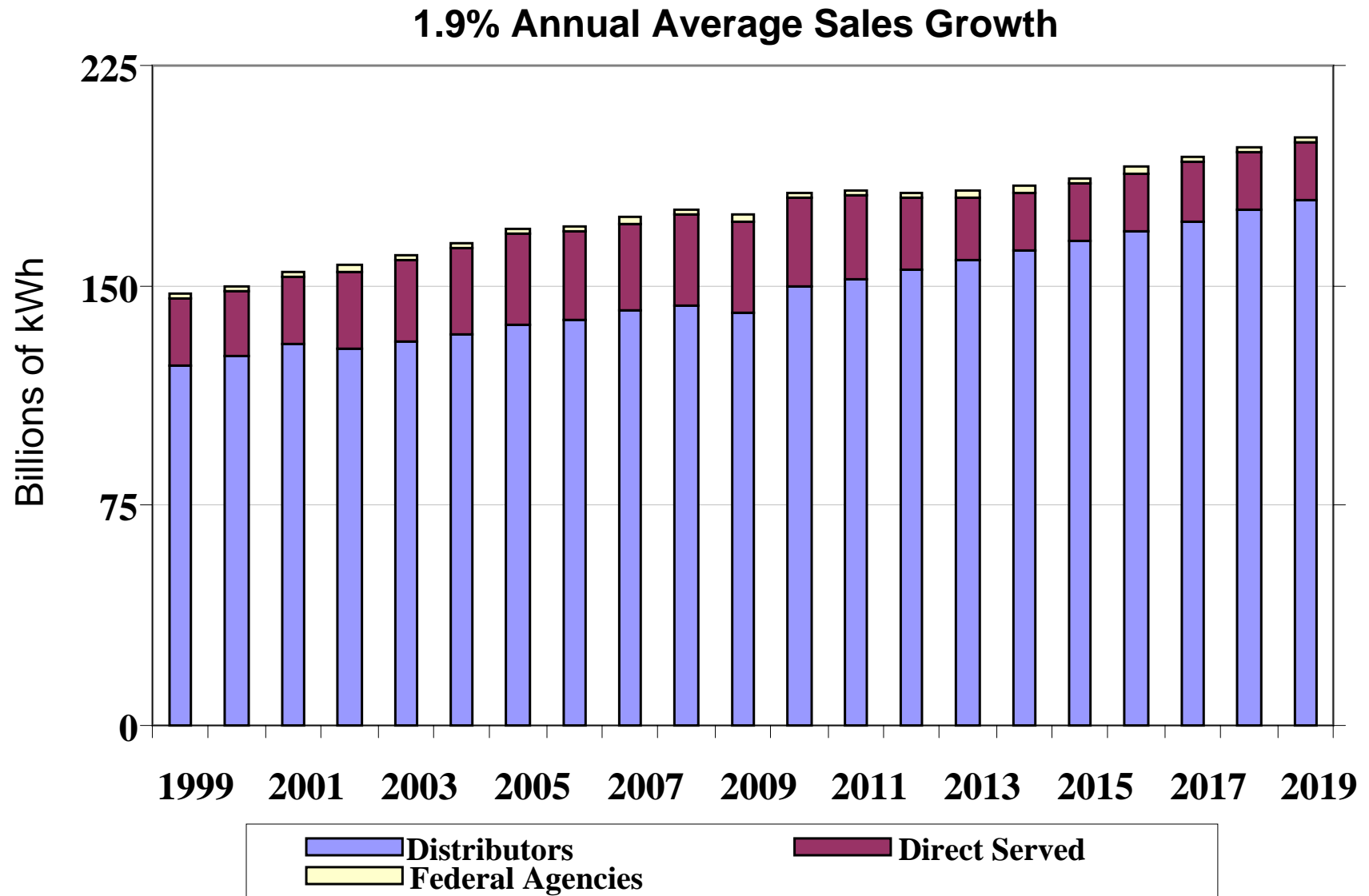
# Sound Financial Principles



(Illustrative)



## Power Demand Growth Trends





# Options for Additional Nuclear Capacity

## Watts Bar Nuclear Plant Unit 2 Reactor

- Construction started in 1973, halted in 1985.
- Detailed scoping, estimating and planning (DSEP) study underway to determine requirements for potential completion.
- Potentially more than 1,000 megawatts of new capacity – would bring total installed nuclear capacity to more than 8,000 megawatts if completed.
- Original Unit 2 construction permit expires in 2010. TVA Board expected to make a decision following completion of environmental assessments and DSEP.



Watts Bar Nuclear Plant in Tennessee

## NuStart Consortium – Bellefonte Reactor Site



- Consortium established to demonstrate the new NRC licensing process for advanced reactor designs. (TVA full NuStart member as of December 2006.)
- NuStart selected the TVA Bellefonte site as one of two for a new advanced design nuclear plant. NuStart intends to seek a combined construction and operating license. (*No TVA construction commitments have been made.*)





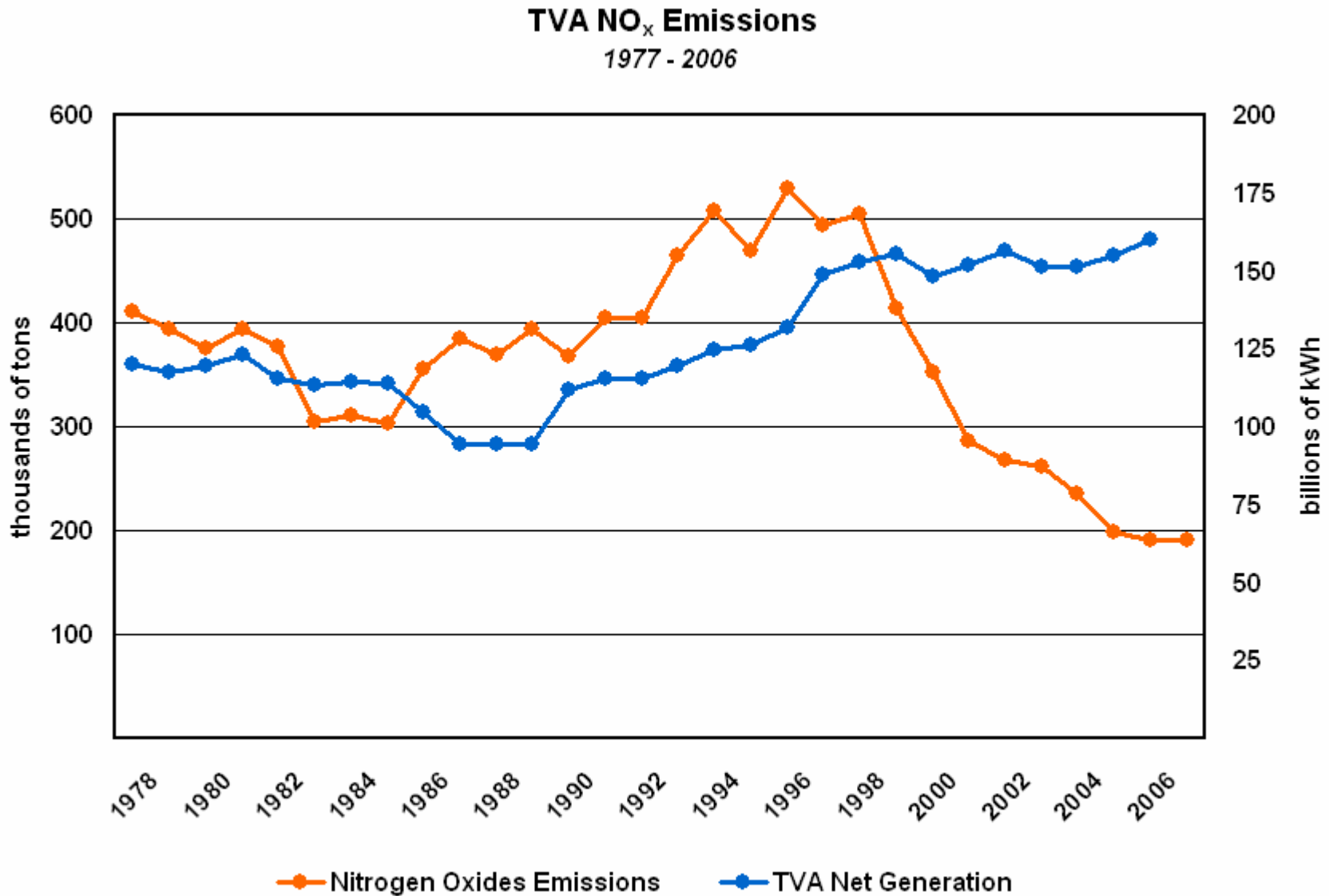
## Capital Expenditures

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- TVA will continue to evaluate its needs for new generation investment:
  - Purchased two combustion turbine facilities in 2007 (combined \$98 million).
  - Major investment in the BFN1 restart completed in 2007.
  - Watts Bar Nuclear Plant Unit 2 completion to be considered following environmental, cost and schedule studies.
  - NuStart partnership could develop other long-term opportunities.
- TVA continues to make significant investments in clean air equipment and controls, transmission system reliability improvements, and maintenance capital on existing generating units.
  - Annual capital investment for these types of projects is expected to continue to be about \$1 billion per year:
    - Clean Air Programs ~\$350 Million
    - Transmission Upgrades ~\$250 Million
    - Maintenance & Other Capital ~ \$550 Million

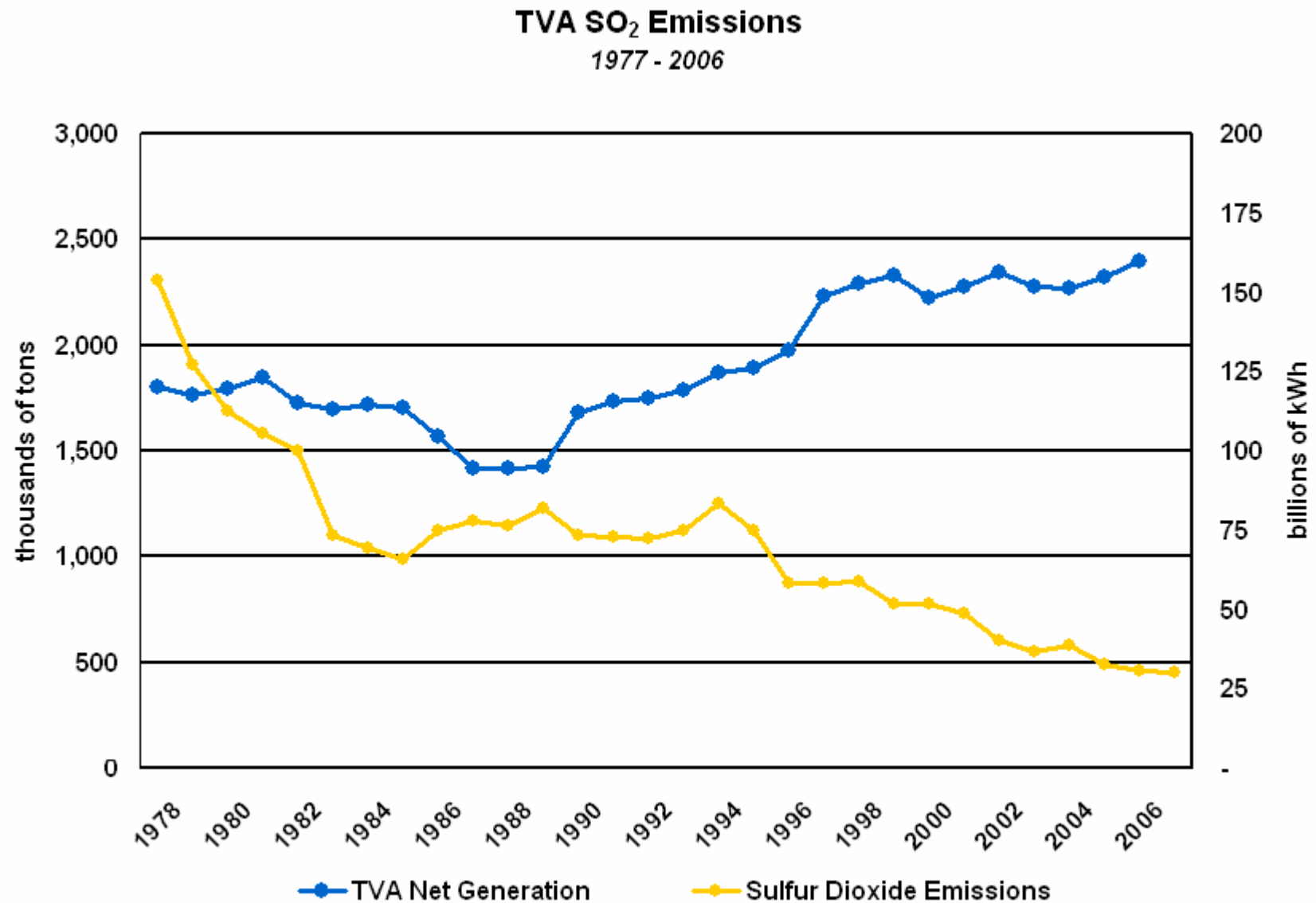


## Regulatory Investments are Paying “Dividends”





## Regulatory Investments are Paying “Dividends”





## Near-Term Objectives

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- Implementation of the 2007 Strategic Plan
- Focus on efficiency and limitation of O&M expense growth
- Emphasis on balance sheet strength
- Maintain reliable operations and asset availability
- Develop renewable and demand-side management plans
- New rate product development



# **Financing Program Update**

**John Hoskins**

**EVP & Chief Financial Officer (INT)**



# Power Program Financing History

- **Early Bond Issues: 1933 – 1939**
  - *TVA Act in 1933 authorized TVA to issue bonds with “all rights and privileges accorded by law to Panama Canal bonds.”*
- **Congressional Appropriations: 1939 – 1959** *(primarily)*
  - *Total = \$1.4 billion (including property transfers)*
- **Self-Financing Amendment to the TVA Act: 1959**
- **Public Markets: 1961 – 1974**
- **Federal Financing Bank (U.S. Treasury): 1974 – 1989**
- **Public Markets: 1989 – Present**





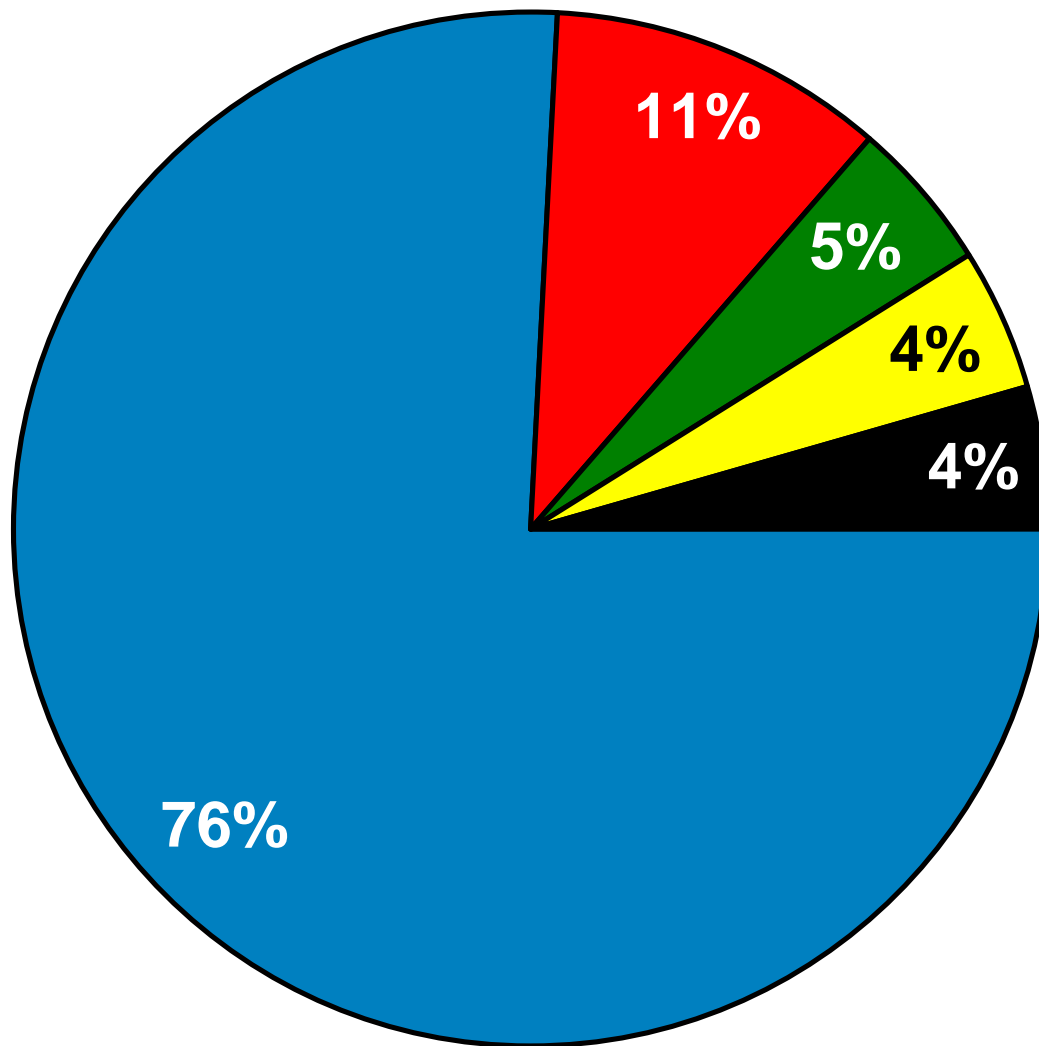
## TVA Compared to Major GSE Borrowers

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- TVA is a wholly-owned U.S. government corporation, not a GSE:
  - *All directors appointed by the President*
  - *TVA finances are included in the federal budget and in the financial statements of the government*
- Profit-neutral, funded (primarily) from power revenues
- TVA bonds provide a diversity opportunity in the GSE/agency space:
  - *America's largest federal power provider*
  - *Bonds backed by net power proceeds of the TVA's power system (composed of tangible, cash-producing assets)*
  - *Business model not tied to mortgage markets*
  - *Vital infrastructure provider and major reliability coordinator for the Eastern Interconnection power grid*
  - *Over 70 years of successful power and stewardship operations spanning several wars, multiple economic cycles, and various industry trends*



## Financing Portfolio



**Total Outstanding  
= \$25 Billion**

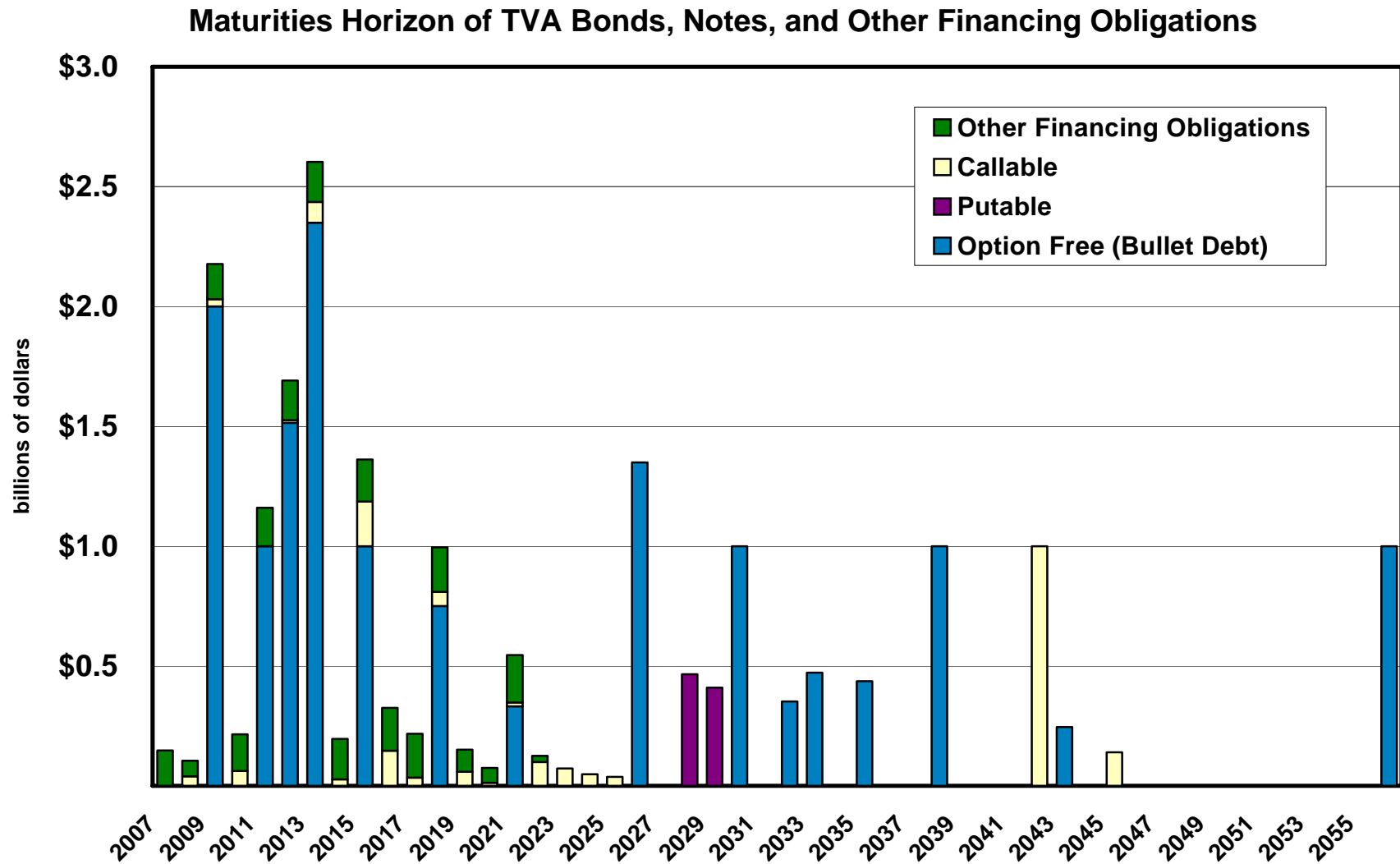
-  Long-term bonds
-  Discount notes (short-term)
-  Power prepayment obligations
-  Retail MTN program
-  Lease-leaseback obligations

As of March 31, 2007





# Financing Portfolio Maturities Timeline



As of March 31, 2007. Does not include short-term notes. Other financing obligations include lease/leaseback and customer energy prepayment obligations.



## Financing Goal

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***TVA's Financing Goal is to Develop Innovative, Cost-Saving Transactions that Provide Value for Both TVA and the Investor***

- Issue based on market conditions
- Expand TVA's investor base
- Distinguish TVA among high quality borrowers
- Issue debt that trades well in secondary markets
- Limit exposure to interest rate risk
- Use optionality when economically appropriate



## Recent Financing Activity

***TVA has issued over \$7 billion of long-term bonds and notes in the past 5 years:***

Type of Issuance	Number of Issues	Amount (\$ millions)	Range of Maturities (Years)
Global Bonds	5	\$ 4,000	10 - 50
Global Bonds (Sterling-Denominated)	1	250	40
Exchange Bond	1	1,500	10
Retail Medium-Term Notes Program	77	1,500	4 - 20
<b>Total Issuance</b>		<b>\$ 7,250</b>	



## Bond Maturities

***TVA has over \$5 billion of long-term debt maturing in 2007 and over the next five years (2008-2012).***

Maturing Bonds	Amount (\$ millions)	Rate
1997 Series A	\$ 400	6.643%
1998 Series G	2,000	5.375%
2001 Series A	1,000	5.625%
2001 Series D (Put)	100	4.875%
2002 Series A	1,500	6.790%
electronotes® (Retail MTN Program)	200	Various
<b>Total Maturities</b>	<b>\$ 5,200</b>	

